

Auditor-General of South Africa

Umzinyathi District Municipality -
Audit report 2014-15

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the Council on Umzinyathi District Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Umzinyathi District Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, statement of cash flows and the statement of comparison of budget information with actual information for the year then ended as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Umzinyathi District Municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material impairments and losses

8. As disclosed in note 4 to the financial statements, the municipality recognised a provision for bad debts of R201,32 million (2014: R147,06 million) on consumer debtors as the recoverability of these amounts was doubtful.
9. As disclosed in note 40 to the financial statements, the municipality incurred water losses of 52% amounting to R47,92 million (7,08 million kilolitres). This was due to burst pipes on reticulation lines, aging infrastructure and illegal connections resulting in unaccounted for water.

Report on other legal and regulatory requirements

10. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

11. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for basic service delivery and infrastructure investment and good governance and public participation presented in the annual performance report of the municipality for the year ended 30 June 2015.
12. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
13. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
14. I assessed the reliability of the reported performance information to determine whether it

was valid, accurate and complete.

15. The material findings in respect of the selected objectives was as follows:

Basic service delivery and infrastructure investment

Usefulness of reported performance information

Measurability of indicators and targets

Performance targets not specific and indicators not well defined and verifiable

16. Performance targets should be specific in clearly identifying the nature and required level of performance as required by the FMPPI. A total of 33% of the targets were not specific.

17. Performance indicators should be well-defined by having clear definitions so that data can be collected consistently and is easy to understand and use, as required by the FMPPI. A total of 33% of the indicators were not well-defined.

18. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. A total of 50% of the indicators were not verifiable.

This was due to inadequate review of the service delivery budget implementation plan (SDBIP) by the accounting officer and the audit committee and the lack of oversight by the municipal council on the preparation of the annual performance report.

Reliability of reported performance information

19. The FMPPI requires municipality's to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not valid, accurate and complete when compared to the source information or evidence provided. This was due to a lack of standard operating procedures for the accurate recording of actual achievements and maintaining supporting documentation for reported information.

Good governance and public participation

Usefulness of reported performance information

Measurability of indicators

Performance indicators not verifiable

20. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. A total of 26% of the indicators were not verifiable. This was due to a lack of proper systems and processes that produce the information on actual performance.

Reliability of reported performance information

21. The FMPPi requires municipality's to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Adequate and reliable corroborating evidence could not be provided for significantly important targets to assess the reliability of the reported performance information. The municipality's records did not permit the application of alternative audit procedures. This was due to a lack of standard operating procedures for the accurate recording of actual achievements and maintaining supporting documentation for reported information.

Additional matter

22. I draw attention to the following matter:

Achievement of planned targets

23. Refer to the annual performance report on pages x to x and x to x for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected objectives reported in paragraphs 16 to 21 of this report.

Compliance with legislation

24. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Annual financial statements

25. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of capital commitments, grants and subsidies, infrastructure assets and budget statement identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

26. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by supply chain management (SCM) regulation 17(a) and (c).
27. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).
28. Councillors of the municipality attended meetings of committees evaluating or approving tenders and quotations, in contravention of section 117 of the MFMA.

29. Contracts and quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
30. Awards were made to providers who are in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulation 44. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).

Strategic planning and performance management

31. The performance management system and related controls were inadequate as it did not describe and represent the processes of performance review and reporting and how it is conducted, organised and managed, as required by section 38 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) and regulation 7 of the Municipal planning and performance management regulations.

Expenditure management

32. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1) (d) of the MFMA.

Consequence management

33. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2) (a) (ii) of the MFMA.

Internal control

34. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

35. The accounting officer and municipal council did not exercise oversight responsibility over the preparation of the annual financial statements, annual performance report and compliance with key legislation.

Financial and performance management

36. The accounting officer and management did not implement a proper record management system for the reporting of performance information.
37. There was inadequate monthly monitoring and reconciling of transactions and balances on infrastructure assets, commitments, SCM and reporting on predetermined objectives.

Governance

38. The audit committee did not perform adequate reviews of reporting of predetermined objectives and financial statements and did not adequately monitor the implementation of recommendations made by the internal auditors on the reliability of quarterly performance reports.

Auditor - General
Auditor-General

Pietermaritzburg

27 November 2015



AUDITOR - GENERAL
SOUTH AFRICA

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